

# Macro Strategy Weekly

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**Investment Partner**

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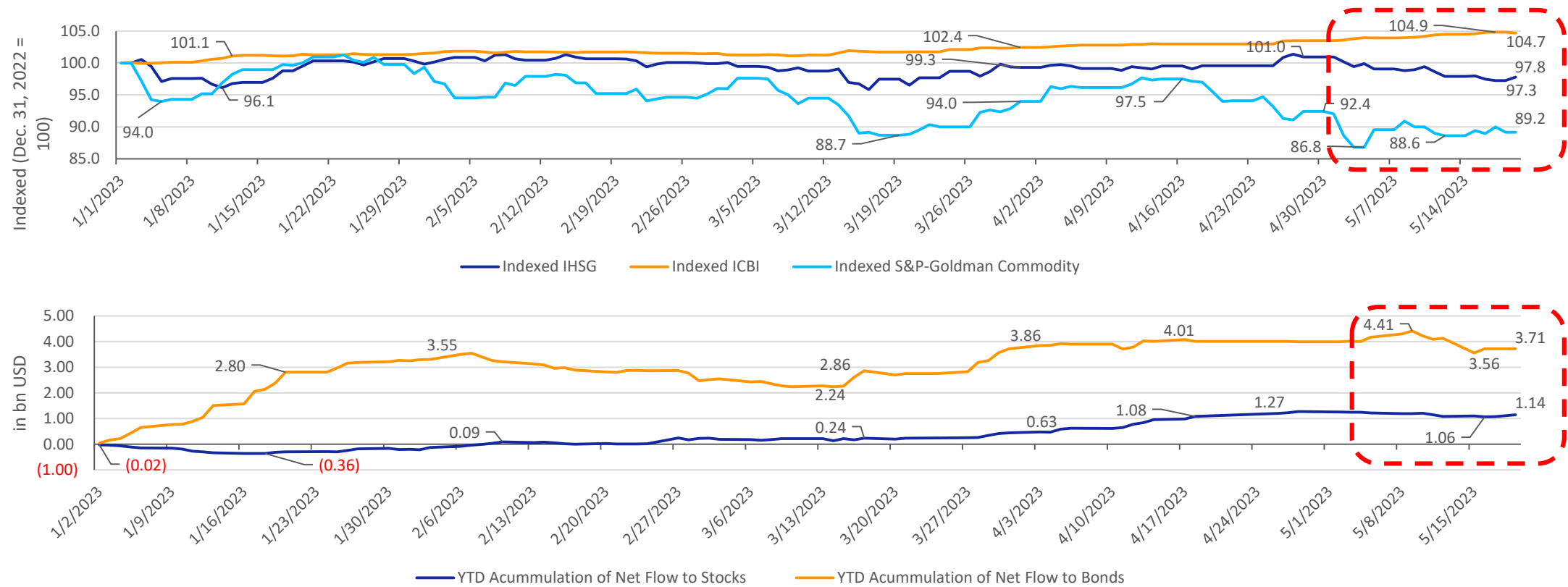


# Last Week's Recap

## 14 – 21 May 2023

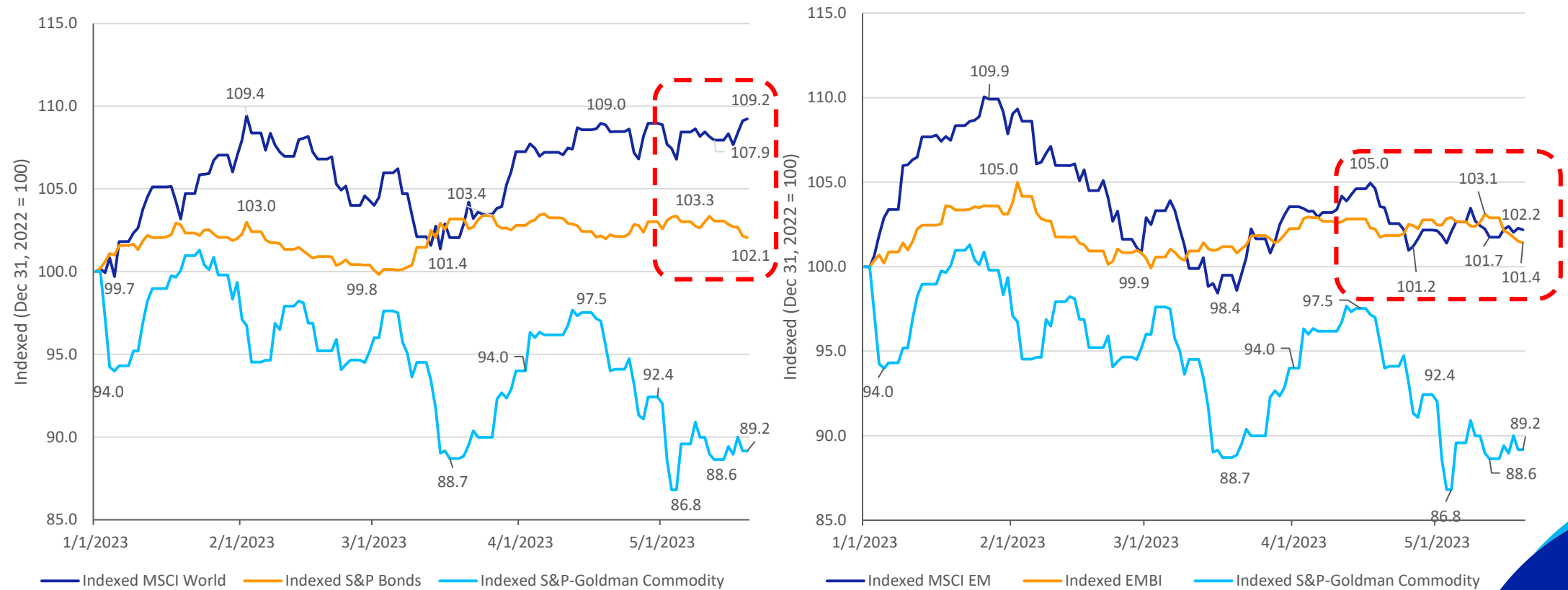
## Indonesia saw significant foreign capital outflow last week, especially from the bond market, as market speculated on Fed's terminal rate hike (5.5%)

The speculation led to corrections in commodity prices, stock market and bond market



Source: IDX, Bloomberg, SSI Research

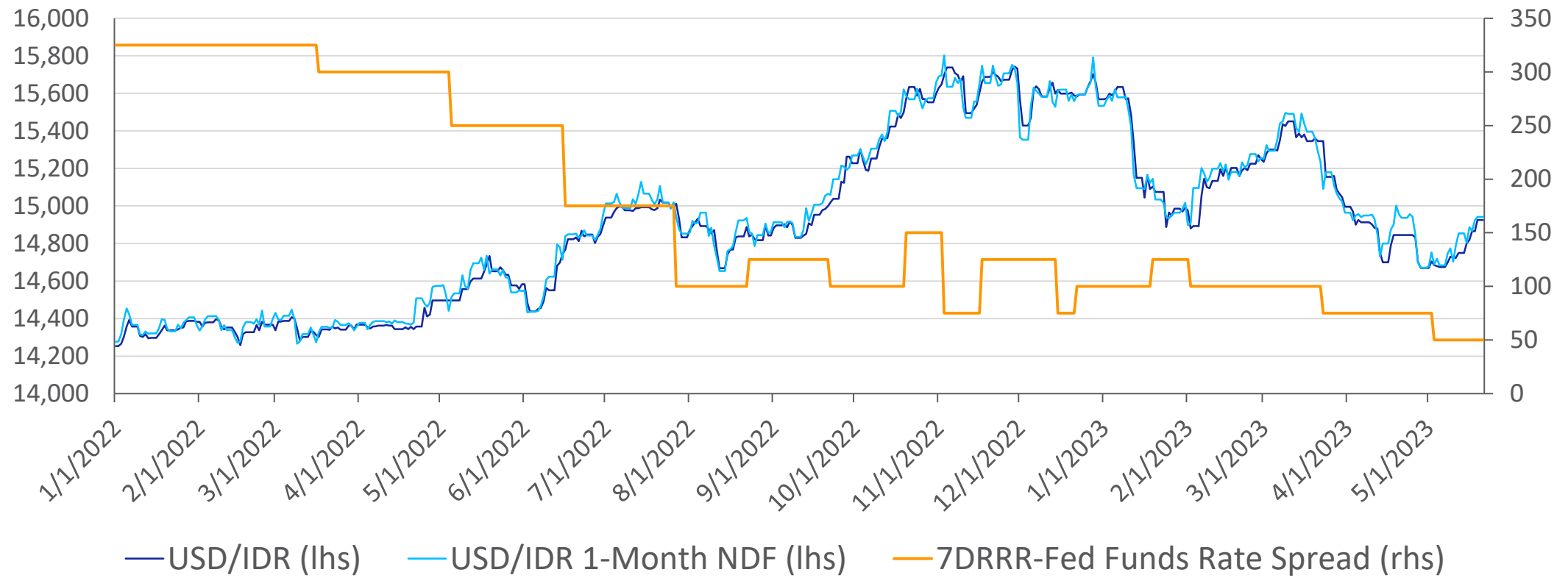
## Global bond market suffered as well, while developed stock markets gained some steam



Source: IDX, Bloomberg, SSI Research

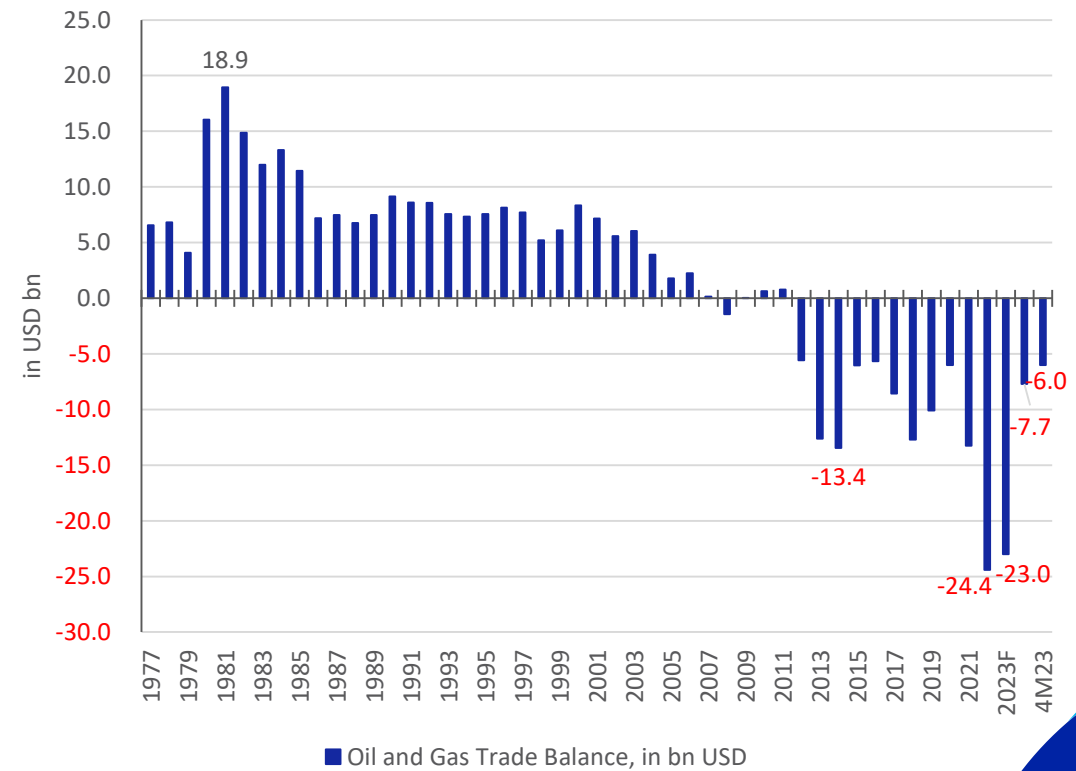
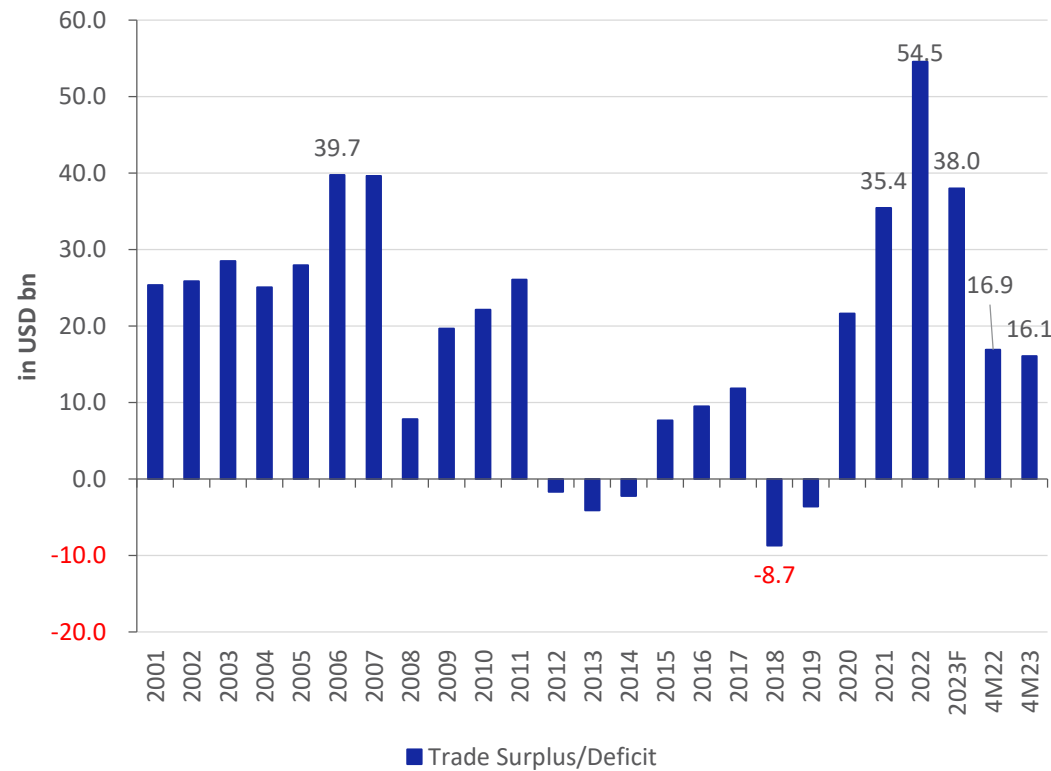
## The speculation also put pressure on rupiah

The rupiah is nearing the IDR 14,900/USD mark, in line with SSI's equilibrium estimate for 2023



Source: Bloomberg, SSI Research

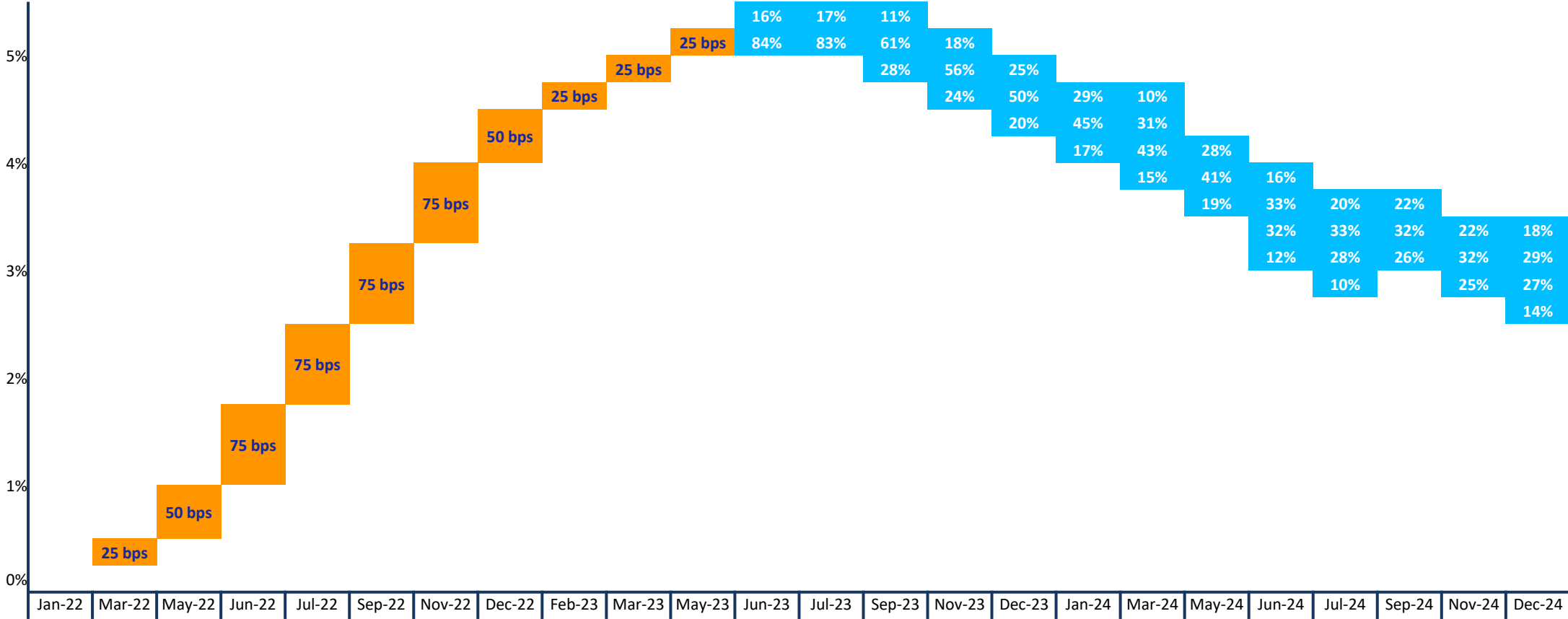
According to macro fundamentals, rupiah's equilibrium is still supported by solid trade balance surplus, though the large O&G trade deficit still looms over



Source: BPS, SSI Research

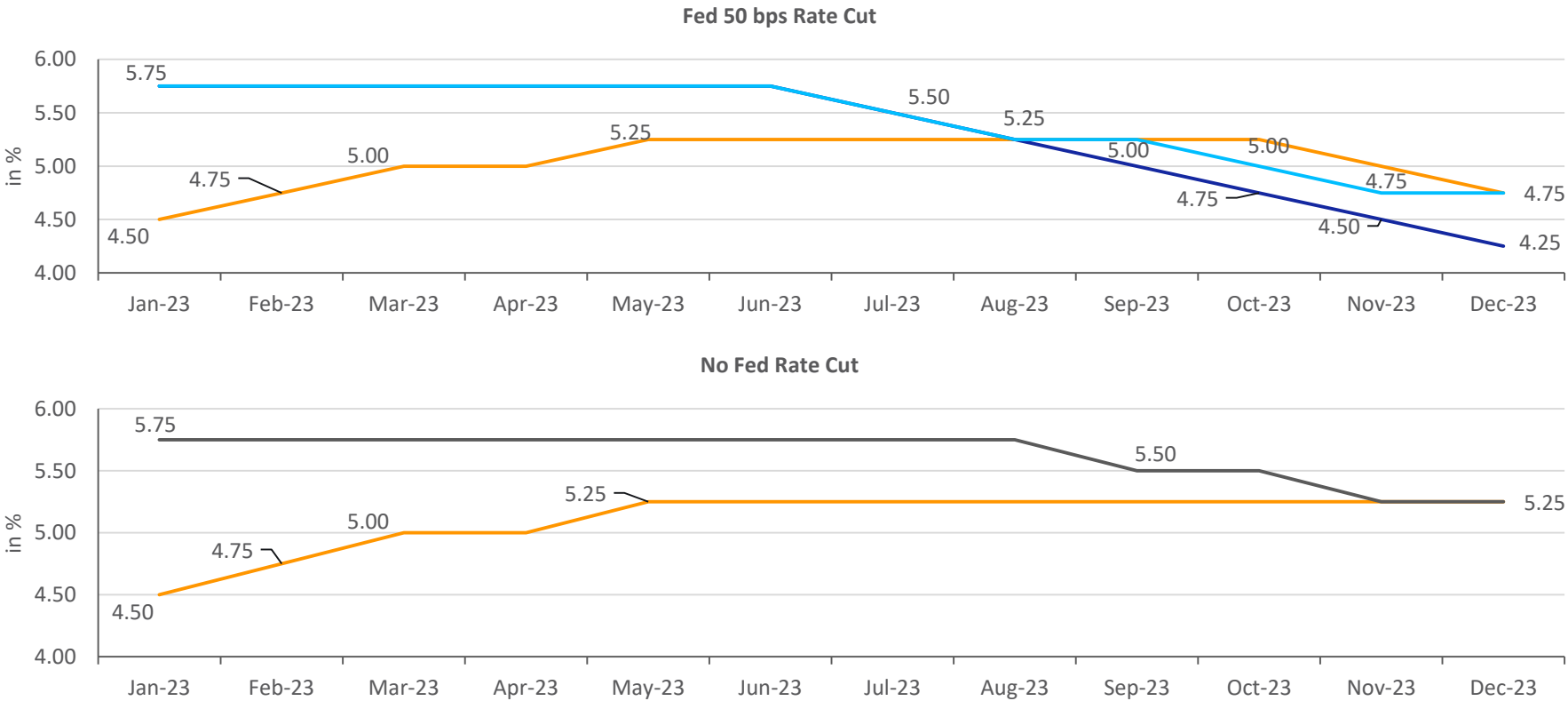
# The speculation was somewhat dampened by Fed Chair Jerome Powell's statement on Friday (5/19)

However, market expectations for Fed pivot in 4Q23 fell from 75 bps (to 4.5%) to only 50 bps (4.75%)



Source: CME Group, Federal Research, SSI Research

# The possibility of “conservative” and “restrained” BI rate cut scenarios suddenly increased following the failure of the Fed’s terminal rate hike speculation



Source: CME Group, Federal Reserve, Bank Indonesia, SSI Research



## What's Our View?

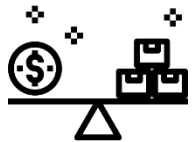
We maintain our view that BI will start cutting BI7DRRR in 3Q23, with total cut of 50-100 bps (4.75-5.25%)

- In our opinion, expectations for Fed pivot might still change, especially ahead of the release of services and manufacturing PMI data, as well as US PCE inflation data this week.
- Facing this possibility, we predict that foreign investors' bullish sentiment towards the Indonesian bond market will be directed mainly at the primary SUN auction market rather than the secondary market.
- We expect BI to start giving signals of rate cuts at the announcement of the results of BI's Board of Governors meeting this week
- We project the USD/IDR to stabilize within the range of IDR 14,800-15,000 per USD next week.
- INDOGB 10-yr yield is also expected to consolidate at 6.4-6.6%
- We reiterate our Overweight rating for INDOGB 2-yr and 15-yr

# This Week

## 22 – 28 May 2023

## Ones to Watch



23 May 2023

Bank Indonesia's 1Q23 current account balance (4Q22: USD 4.3bn; Cons 1Q23: USD 2.45bn)



23 May 2023

Manufacturing PMI of developed countries; the US Serikat (Apr: 50.2; Cons May: 50), Eurozone (Apr: 45.8; Cons May: 46), UK (Apr: 47.8; Cons May: 48)



23 May 2023

Services PMI of developed countries; the US (Apr: 53.6; Cons May: 52.5), Eurozone (Apr: 56.2; Cons May: 55.5), UK (Apr: 55.9; Cons May: 55.5)



24 May 2023

UK headline CPI (Mar: 10.1% yoy; Cons Apr: 8.2% yoy) and core CPI inflation (Apr: & Cons May: 6.2% yoy)



25 May 2023

BI 7DRRR (Apr: & Cons May: 5.75%/unchanged)



26 May 2023

US headline PCE (Apr & Cons: 4.6% yoy) and core PCE inflation (Apr: 4.2% yoy; Cons May: 4.3% yoy)



# Thank You

## Your Lifelong **Investment Partner**

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